

NU HORIZONS ELECTRONICS CORPORATION

**Moderator: Arthur Nadata
October 5, 2006
3:15 p.m. CT**

Operator: Good day everyone and welcome to the Nu Horizons Second Quarter Fiscal Year 2007 Earnings Conference Call. Today's call is being recorded.

For the purposes of the Safe Harbor provisions and the Private Securities Litigation Reform Act of 1995, our statements today may include certain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. Such statements are based upon among other things, assumptions made by the information currently available to the management, including management's own assessment of the Nu Horizon's industry and competitive landscape.

During the presentation, your line will be in a listen-only mode. At its conclusion, there will be a question and answer session. Instructions on how to signal for a question will be given at that time.

Now for opening remarks and introductions, I'd like to turn the conference over to Mr. Arthur Nadata, Chairman and CEO of Nu Horizons Electronics Corporation. Please go ahead, sir.

Arthur Nadata: Thank you. Good afternoon and welcome. I am Arthur Nadata, Chairman and Chief Executive Office of Nu Horizons Electronics Corporation.

With me here today are Richard Schuster, President and Chief Operating Officer, David Bowers, President of Nu Horizons, Distribution Division, and Kurt Freudenberg, the company's new Chief Financial Officer, and I must add that we're very excited and happy to have Kurt on board.

Kurt will give an overview of the numbers for the second quarter of fiscal 2007. I will then give a brief market overview and synopsis of the industry and our company's performance, and then we'll open the call to questions you may have.

At this point, I would like to turn the call over to Kurt.

Kurt Freudenberg: Thank you, Arthur, and good afternoon everyone. Net sales for the quarter ended August 31st, 2006 were \$193.5 million compared to \$128.3 million for the comparable period a year ago, an increase of 50.8 percent. Net income for the quarter was \$3,485,000, or \$0.19 per diluted share, as compared to net income of \$820,000, or \$0.05 per diluted share, for the second quarter of last year, an increase in net income of 337 percent. Overall gross profit margin for the quarter ended August 31st, 2006 was 15 percent as compared to 16.1 percent of the prior year quarter.

For the six months ended August 31st, 2006, net sales increased \$381.3 million from \$249.7 million in the comparable period last year, an increase of 52.7 percent. Net income for the first half of fiscal 2007 was \$6,660,000, or \$0.36 per diluted share, compared to net income of \$1,295,000, or \$0.07 per diluted share, in the comparable period of last year. Overall gross profit margin for the current six-month period was 15 percent as compared to 16 percent a year ago six months period.

For the second quarter and sixth months ended August 31st, 2006, operating expenses as a percentage of sales decreased to 11.8 percent from 14.6 percent in the prior year. Operating

expenses increased \$4.3 million to \$22.9 million for the three months ended August 31st, 2006 from \$18.6 million for the same period one year ago, an increase of approximately 21.6 percent. Operating expenses for the six-month period ended August 31st, 2006 increased \$8.5 million to \$45 million from \$36.5 million in the prior period.

The dollar increase in operating expenses resulting mainly from increase in ((inaudible)) levels related to payroll expenses and commissions in connection with the continued expansion of the company's Asian and U.S. operational capabilities over the last several fiscal quarter to support expanded supply relationships.

On August 29th, 2006, Nu Horizons completed the acquisition of UTA-based components distributor, DT Electronics, Limited. Under the terms of the agreement, Nu Horizons initially paid approximately \$5.7 million. The transaction also provides for potential additional payments to the sellers in three installments for 2009 for the minimum of 849,000 pounds sterling to a maximum of 2,548,000 pounds sterling. Payments of any amounts above the minimum are contingent upon attainment of certain earnings milestones by DT Electronics during the three-year period.

The above initial payment guaranteed minimum payments and transaction clause resulted in good will amounting to approximately \$4.9 million. DT Electronics had \$23 million of sales for the 12-month period ended March 2006 and is expected to be accretive. The acquisition was funded by cash on hand.

Now I'll turn the call back over to Arthur.

Arthur Nadata: Thank you, Kurt. Our second fiscal quarter for – was our twelfth consecutive quarter of sales growth when compared to the same quarter in the prior year. We believe that our semiconductor industry actually saw some contraction in this period compared to our fiscal first

quarter, yet Nu Horizons still gained market share. While some of our largest Fulfillment customers were down on their demands, we saw an increase in Demand Creation business.

Sequentially, our distribution business showed a small increase in margin quarter-over-quarter. Our North American Distribution business – sales were up slightly quarter-to-quarter and 60 percent year-over-year with a positive book to bill. And our Asian Pacific Distribution business was up approximately 10 percent quarter-over-quarter and 36 percent year-over-year with even a stronger book to bill.

Our Passive Components business was down from the previous quarter due to some customer-specific re-designs and push-outs, which did offset the increase in Semi-Conductor distribution margin. We are seeing strong growth in our Demand Creation leading indicators, including new opportunities, registrations and design wins. As discussed, our Demand Creation distribution revenue grew more rapidly than our Fulfillment revenue. Growth came from a strong group of our suppliers, including IDT, Linear Technology, CEL, Epson, (Marvel, Microbe, ST), Powercom, (Oakie, Renesys) and Sharp Displays.

It was also encouraging that two of our newest suppliers, Nordic and Silicon Labs, began to contribute to our increasing revenues. We see continued strength from our customer base in the military, instrumentation, medical, networking and consumer market segments.

This week, we announced addition of a new supplier partner and new technology cell with OSRAM Optical Semiconductors. OSRAM is the industry leader in solid state lighting, technology and products. They will help us expand our business in the fast growing markets such as general illumination, projection, LCD display backlighting, automatic interior and exterior lighting and mobile communications.

Our major investments in Asia are showing continued results with many customers – new customers and design wins. We continue to strengthen our line card in (APAC) and just today made a major announcement with the addition of Linear Technology for China, Hong Kong and India. With the powerful lines in the Asia such as (Xilinks, Tundra) and (Nordic), we have the ammunition to accelerate our market share growth, our track ((inaudible)) sales people and engineering personnel.

Our acquisition of DT Electronics, Limited, a U.K. based design component distributor, has been successfully completed, and the integration is going smoothly. We have added (Xilinks) to the DT line card and anticipate adding other additional suppliers as well. We are aggressive in our sales planning and believe that the acquisition will be accretive. We are currently exploring other opportunities in the European market and anticipate expansion within the next six months.

The investments we have made to become the world's leading Demand Creation distributor are showing success. We still have many challenges ahead of us, but our suppliers and customers are validating our model every day. The industry recognizes our value-add, and we are fulfilling their needs. While we do some – we do see some signs of inventory adjusting in some markets along with marketing and softening, we are confident that we will continue to increase our market share on a global basis.

I would now like to open the floor for any questions.

Operator: Thank you. The question and answer session will be conducted electronically today. If you would like to ask a question, you may signal us by pressing the star key followed by the number one on your telephone. Once again, that's star one if you have a question. If you're joining today using a speakerphone, please turn off your mute function before signaling. One more time, that's star one to ask a question.

Our first question will come from Matt Sheerin with Thomas Weisel Partners.

Matt Sheerin: Thank you. First question has to do, Arthur, with the Demand Creation business. Could you tell us what percentage of your sales or semiconductor sales was related to the design wins versus the Fulfillment business and how it compared to last quarter or last year?

Kurt Freudenberg: That's your call if we want to provide it, Arthur.

Arthur Nadata: Well historically, Matt, we haven't really been breaking that out.

Matt Sheerin: OK.

Arthur Nadata: I could tell you that it is growing at a much more rapid pace than our Fulfillment business, and I think we discussed that that we, you know – we anticipate that happening.

Kurt Freudenberg: And I'll add just a little color to that. So on a year-to-year basis, as we've talked about, Fulfillment business is contributed much more to the growth than the Demand Creation business, but we are now beginning to see on a – as you – as we're looking at quarter-over-quarter that the Demand Creation business has surpassed the Fulfillment business growth. This most recent quarter, we noted that.

Matt Sheerin: And do you see that trend continuing into the November quarter based on the bookings that you're seeing now?

Kurt Freudenberg: That's a – that's a reasonable expectation, yes.

Arthur Nadata: Yes.

Matt Sheerin: OK, and then your comment on some of the Fulfillment – larger Fulfillment business a little bit soft or some inventory adjusting – could you kind of walk us through more detailed way what you're seeing out there, and how long do you think that could be an overhang here for the whole industry?

Arthur Nadata: Well, you know, we've seen some push backs from some of our larger – our contract manufacturers but not long-term. Maybe a quarterly push back that we hope it'll be picked up again, you know, the next quarter or so and it's basically on, you know, the Fulfillment commodities stuff. So we haven't seen a lot of push back as far as on the Demand Creation products. And Dave, you want to add to that, or...

David Bowers: Matt, it seems generally tied to couple of volume markets. Some of this is anecdotal, so we did hear – it doesn't direct affect us – but we do know that cell phone demand appear to have been down some in Q3. Generally speaking, our suppliers believe that that will recover in Q4. We see a little bit of – a little bit related to that, but it's not a substantial market. The biggest – the biggest reduction we saw in the Fulfillment side quarter-to-quarter was in some of the larger telco, telecom customers, and that was affected through the contractor manufacturers, and it seems related to excess inventory on some high value components, and we're seeing signs that that's being worked out already.

Matt Sheerin: Oh, you do? OK, good. And then Richard, could you just comment on what you're seeing on NIC? It sounded like it was down a little bit. You had some push outs there. What are the trends that you're seeing on that capacitor side?

Richard Schuster: Sure. We did see – we did have by chance several of our large consumer customers were going through a redesign stage, and therefore there was – there was a push out, but that push out, we believe, is temporary. We see some of that business coming back already, and we

anticipate that this third quarter, you'll see that business coming back fully or to a high percentage.

A little bit – a little bit of inventory adjustment on the distribution business – our distribution business to other distributors that we sell passive components to.

Matt Sheerin: Yes.

Richard Schuster: And overall, prices are still running pretty firm with some prices increases in some select components. And the activity level is still very strong in terms of new design, so we anticipate that this was a short-you know, term, you know, anomaly.

Matt Sheerin: So you – are you seeing signs of that sort of working itself out already then?

Richard Schuster: Yes, we're actually seeing that starting this quarter.

Matt Sheerin: OK, great. Thanks very much.

Operator: One more time, that's star one if you do have a question. Next we'll hear from Rob Damron with 21st Century Research.

Rob Damron: Good afternoon. Let's see. I wanted to ask a question about the gross margin trend. We still saw gross margins inch down just ever so slightly from Q1 to Q2, but we did see Demand Creation grow as a percent of the business from Q1 to Q2. Now I understand that maybe the path of business softness may have impacted that, but if we look at just the Semi-Conductor side, would we have seen the gross margin increase?

Male: Sequentially ...

David Bowers: We did. Rob, it's Dave Bowers.

Rob Damron: Yes.

David Bowers: We did see a very slight increase in Semi-Conductor margin quarter-to-quarter, which we – which is directly related to Demand Creation growing faster than Fulfillment.

Rob Damron: OK, so if we see the path of business, you know, firm up in the next quarter or so, and we still see the Demand Creation business, you know, growing faster then we may have bottomed in terms of gross margin and starting to see gross margins inch up from here. Was – is that a reasonable assumption?

Arthur Nadata: Yes, and I think we mentioned that on some of the calls that – you know, that obviously the Demand Creation market is higher and to get a higher percentage of that part of our overall sales is the goal, and I think we're beginning to see that.

Rob Damron: OK, great. And then I wanted to ask about the DT Electronic business. Could you give us a little insight into their margin structure? Are they higher or lower than Nu Horizons overall? Do they have a higher mix of Demand Creation, or are they a little bit more Fulfillment related?

Arthur Nadata: I would say they have a – quite a substantial mix, much higher Demand Creation. Their margins are substantially higher than ours today.

Rob Damron: OK, and then you mentioned (Xilinks) as one supplier that you now have been franchised for into the U.K. How – I guess just trying to get a – my arms around the additional opportunities in terms of cross-selling your U.S. suppliers into Europe and then vice versa, possibly selling the DT Electronics suppliers into the U.S.

Arthur Nadata: Well, today, Rob, they did have four lines in common with us, and certainly (Xilinx's) now would be number five. We are in conversations with our lines on the line card to engage with DT and as we expand in Europe, and there's a small group of their lines that we are talking to, to expand with us in North America where it makes sense. So everything you said basically is correct.

Rob Damron: OK, that's helpful. Thank you very much.

Arthur Nadata: Welcome.

Operator: And one final reminder, if you do have a question, please signal now by pressing star one on your phone. And we'll pause again for another moment.

And it appears we have no further questions at this time.

Arthur Nadata: OK, I would like to thank all of you for participating on this conference call. We welcome your questions and look forward to the next conference call. Thank you very much for your support and have a good day.

Operator: Thank you. That does conclude today's conference call. We thank you for your participation and have a great day.

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